# A bicentenary review of Ricardo's *Proposals for an Economical and Secure Currency*

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**Abstract:**

This year commemorates the bicentenary of one of David Ricardo's lesser known publications, an 1816 pamphlet: *Proposals for an Economical and Secure Currency.* This paper explores the meaning and significance of this work and presents a variety of interpretations that have emerged about Ricardo's monetary theory. The commonly held view is that monetary concerns were only of marginal importance to Ricardo. The paper discusses the context, content and response to *Proposals* in order to evaluate this commonly held view. Furthermore, the scheme Ricardo lays out in *Proposals* is intimately connected with international exchanges. The implications of rival interpretations of Ricardo's monetary theory on how the balance of payments and gold movements are understood are explored.

**Classification JEL**:

## 1. Introduction

This year commemorates the bicentenary of one of David Ricardo's lesser known publications, an 1816 pamphlet: *Proposals for an Economical and Secure Currency.* This paper explores the meaning and significance of this work and presents a variety of interpretations that have emerged about of Ricardo's monetary theory. The commonly held view is that monetary concerns were only of marginal importance to Ricardo. The paper discusses the context, content and response to *Proposals* in order to evaluate this commonly held view. Furthermore, the scheme Ricardo lays out in *Proposals* is intimately connected with international exchanges. However, the implications of the various interpretations of Ricardo's monetary theory on how the balance of payments and gold movements are understood remain insufficiently disentangled.

The paper has three broad parts. The first discusses the context of the debates out of which Ricardo's *Proposals* emerged. (Section 2 presents a detailed overview of the plan contained within *Proposals* and Section 3 presents the reception of Ricardo's plan and the ideas of his main objectors.) The second part of the paper, Section 4, expands on the analytical issues of the preceding discussion, delineating the various interpretations of Ricardo's monetary ideas and drawing a parallel between debates over monetary theory then and now. The third part, Section 5, elaborates on how different understandings of Ricardo's monetary theory have affected subsequent interpretations of how Ricardo viewed international adjustment and changes in the external account. This section also carries forward some of the implications regarding the current international monetary system and the hurdles Ricardo's monetary theory still faces. The interest in studying the debates surrounding Ricardo's *Proposals for an economical and secure currency* (1816) has been aptly summarised by Marcello De Cecco: "When we study pre-1914 monetary history, we find ourselves frequently reflecting on how similar were the issues of monetary policy then … to those of our time" (1974, 58).

## 2. Ricardo's *Proposals* for a return to gold

England had suspended convertibility of its bank notes into specie in 1797 and during the early 1800s the causes of the deteriorating economic conditions were the subject of intense debate. *Proposals* was published in 1816, a year after the end of the Napoleonic wars, and contained a detailed plan about the logistics of how the Bank of England could return to the gold standard all the while maintaining paper money as a means of payment. The Plan, according to Fetter (1965, 91), "showed him at his best as an economist" because it provided a roadmap for the creation of the most perfect kind of currency – one that possesses two traits: is both economical in use and secure.

One of the grave concerns about how and when to resume convertibility was the great quantity of gold that the Bank of England might need to purchase in order to satisfy all the notes that holders may want to exchange for gold. In light of this, the first version of the plan appeared in the Appendix of *High Price of Bullion* (1810) as a riposte to the view that the Bank of England would need to accumulate a great stock of gold in anticipation of resumption. Conversely, Ricardo's plan suggested a means to reinstitute a gold standard which wouldn't rely on gold circulating domestically.

This was to be done by prohibiting the convertibility of bank notes into gold coins, enforcing the Bank instead to have to pay in gold ingots. Ricardo's ingot innovation was thus to "replace metallic coin with paper … using an ingot of standard weight and fineness instead of coin for the conversion of the paper money" (Takenaga 2016, 199). The need to economise on gold as the circulating medium is pronounced in *Proposals* when Ricardo describes the perfect currency as one in whose use "the utmost economy is practised" (Ricardo 1816, 8). This would reduce the amount of gold needed to circulate as money and so, according to Davis (2005, 194), the Bank's gold reserves would face reduced pressure and demand by those wanting to redeem their notes because of the sheer inconvenience of receiving ingots in return. This would have the effect of allowing the Bank to maintain a smaller hoard, i.e. smaller reserves, which given the already run-down state of reserves, was an important consideration. "I think there would be no provision of gold necessary beyond that which the bank must have now, however small it may be" (Ricardo 1819, in Sraffa [1951-1973] V, 383).
Ricardo's reputation is strongly linked to the Bullionist controversies of the early 1800s. According to the Bullionist view the suspension of convertibility had led to an

uncontrolled expansion of note issue by the Bank of England and part of the public debate had focused on identifying the cause of an excess note issue. The Bullion report explains: “this excess is to be ascribed to the want of a sufficient check and control in the issues of paper from the Bank of England; and originally, to the suspension of cash payments, which removed the natural and true control” (Select Committee, 1810: 73). In agreement with the aims of the Bullionist position, Ricardo’s plan was to alleviate the ills caused by an excessive note issue by the Bank of England. But by what criterion can ‘excess’ be judged? For Ricardo this was observable through the divergence between the market and mint price of gold, the latter being the legally set price of gold prior to suspension. Monetary adjustment would achieve convergence between these two prices. For example, given the amount of Bank of England notes already in circulation, there would have to be a reduction, estimated of about 15% of the note supply in 1810, to reach par (Bonar, 1923: 283). “Ricardo addressed himself wholly to the question of the adjustment of the supply of money and the price level to the price of gold that would be enforced by the decision to resume cash payments” (Sayers, 1952: 39). The aim was thus to close the gap between the market and mint price of gold, which he viewed would only require a small reduction in note issue (Morgan, 1943: 44). An “appreciable margin” was proposed by setting the price for buying gold slightly cheaper than the price of selling gold £3 17sh 6d for the former and £3 17sh 10 ½ d for the latter” (Arnon, Weinblatt and Young, 2011: 29). The way the contraction would be instituted was by beginning resumption of notes for gold at the market price and coming down in small steps at specific periods until the mint price was reached. The fall in the price of goods would follow the descent of the market price to the mint price of gold; a process which was estimated to last up to a year (Bonar, 1923: 289).

Legitimate concerns about deflationary prospects of a monetary contraction were implicit in the public discussion about ‘economising’ on gold. Later commentators have challenged the long-established view that Ricardo paid little regard to the deflationary problems of monetary contraction. Although not a central concern, Ricardo acknowledged that temporary problems could emerge, as Laidler (2000) and Sayers (1953, 45) point out. Sayers (1953, 55) recognises that Ricardo did take note of the effects on employment of a monetary contraction, and notes that Ricardo always insisted on a gradual contraction (Sayers, 1953: 39).

Frequently charged with being a deflationist, Ricardo however conceived a plan that would reduce the degree of monetary contraction necessary to return to gold. The amount of gold the Bank of England would be required to hold under his scheme was minimised. The quantity of paper money in circulation could then be more easily altered to meet changing conditions. The key operating principle of the ingot plan made the task of the Bank of England to alter the quantity of paper money in circulation in such a way as to prevent divergence between market and mint price of gold (Deleplace 2016, 11). This could be done without any alteration to the quantity of gold held in the Bank's reserves. This is what is meant by the adjective in the pamphlet's title, 'Proposals for an Economical and Secure Currency', which is to achieve the objective of requiring less circulating gold whilst maintaining the currency's security, i.e. a stable value. It is to this aspect of the plan that we now turn.

A "currency may be considered perfect, of which the standard is invariable, [and] which always conforms to that standard" (Ricardo 1816, 8). Ricardo's plan not only supported the resumption of cash payments through a scheme that would economise on the amount of gold needed but it also allowed England to resume gold payments without raising the value of gold i.e. its purchasing power. "All writers on the subject of money have agreed that uniformity in the value of the circulating medium is an object greatly to be desired" (Ricardo 1810, 7). By proposing a paper circulation, where Bank of England notes would be convertible into bullion, rather than gold coins, Ricardo sought to improve the pre-1797 system by replacing the expensive medium of gold with one that was cheaper (Ricardo 1816, 32). However, the ingot plan goes further to enhance the stability of the price of gold via the peculiarity of returning to gold without it acting as a circulating medium. If gold was a circulating medium, then any increase in the quantity of gold supplies would affect both the value of the circulating medium and stocks of bullion. Using paper for circulation however, would allow the price of gold to remain constant "regardless of the amount of paper" (Arnon 2011, 146). The advantage of paper over gold was that the quantity of paper money did not rely on the production process and deposit discovery of gold reserves, a source of real instability. With a changing need for trade and changing economic circumstances the quantity of money could be altered fairly simply, which would allow the value of money to remain more constant (Takenaga, 2003: 100).

This reveals Ricardo's higher order purpose, which was the search for an invariable measure of value.

## 3. Reception of Ricardo's ideas

Although it was his contributions during the Bullionist controversies that made Ricardo well known, it was not until a few years afterwards that a return to convertibility was discussed in Parliament on the basis of the plan laid out in *Proposals.* Legislation for resumption at pre-war parity was passed in 1819, only to become operational in 1821 - however it was apparent that the means by which this would be done would not follow the directions laid out in *Proposals*.

A scramble for gold began which exacerbated the high price of bullion and depressed domestic prices further. The Bank of England grew its reserves threefold between 1819 and 1821 (Gomes, 1993: 93). By the end of 1821 the drop in prices was far greater than the 10% admitted by Ricardo (Sayers, 1952). Ricardo's disappointment was great because the ingot plan removed precisely the need to scramble for gold, yet those in control of the 'company of merchants' as Ricardo liked to call the Bank of England, were mismanaging the resumption (Ricardo, 1816: 98). He complained that "every ill which befalls the country is by some ascribed to Peel's Bill, and Peel's Bill is invariably ascribed to me" (Ricardo, 1821, in Sraffa [1951-1973] IX, 122). He protested about the state of affairs, as he had proposed "a scheme by the adoption of which there would not have been a demand for one ounce of gold, either on the part of the Bank, or of any one else, and another is adopted by which both the Bank and individuals are obliged to demand a great quantity of gold and I am held responsible for the consequences" (Ricardo 1921, in Sraffa [1951-1973] IX, 123).

Hilton (1977, 87) elucidates some of the reasons the ingot plan was not adopted. Seen as humiliating and unfair, the directors of the Bank of England were unyielding and some wanted to disrupt it. Other reasons for the ingot plan's abandonment are put forward by Smith (2008): the government "only wanted to use Ricardo's plan as a means to compel an unenthusiastic Bank of England to actually abide by parliament's decision to resume cash payments" (2008, 55). Once the Bank had agreed to resumption, the specific form of the ingot plan was abandoned (Smith 2008).

Ricardo expressed his disappointment at length in his later work *A Plan for the Establishment of a National Bank* (1824). The Bank of England, a private join-stock company, was abusing its position and profiteering during the Suspension years. Ricardo judged the Bank of England as being unable to resist from profitable lending to its friends and he found its excessive profit making objectionable (Sayers 1952, 32). Returning to convertibility would discipline the Bank: 'The only legitimate security which the public can possess against the indiscretion of the Bank is to oblige them to pay to their notes on demand in specie' (Ricardo 1810 in Sraffa [1951-1973] III, 99).

Opposition to Resumption came mainly from the anti-Bullionists. Advocating a postponement of the return to convertibility, they distinguished between what caused external monetary problems in the exchanges and what caused internal problems in relation to rising domestic prices (Corry 1962).

Anti-Bullionists defended gold convertibility being suspended on grounds that shifted the blame from the Bank of England by attributing monetary problems to different causes (Allen 1999). Their defence of the Bank of England came from the real bills doctrine and the law of reflux. The real bills doctrine held that the increase in bank notes by the Bank of England could not be the source of monetary problems. Responding to a demand for credit that was granted for a trustworthy cause was seen as a guarantee that credit creation in itself could not be the source of inflation. The Bank of England's actions were not to be blamed for inflation for it merely passively responded to the legitimate demands for credit.

According to real bills doctrine, appropriate bank lending "should be confined to loans made on the security of short term bills of exchange issued by reputable merchants or manufacturers to finance production and distribution of real goods" (Laidler 1984, 153). Bank notes could thus never be excessive if they were created out of genuine needs of trade and production. As Corry explains, "such issues could never be the active factor in any price rise because if they were the equivalent of real security they would only be meeting a demand for credit *which was already in existence:* hence – according to this view – bank credit met the needs of trade and did nothing to create those needs" (Corrie 1962, 75). What follows is that "a rise in prices is not typically preceded but, on the contrary, is followed by an increase in the circulating media" (Blaug 1962, 195). An elastic money supply provides an inbuilt mechanism that annihilates purchasing power when the typically short-term bill expires. The Bank of England's liabilities would grow on the basis of the needs of trade and the advances made to government. As a bank's assets would be comprised of real bills, the amount of loans they made would be based on 'goods–in-process' and so "the means of payments in an economy will necessarily expand in pace with the volume of goods produced" (Blaug 1962, 195). Thus, "even in the absence of convertibility, a banking system which confines itself to lending on the security of good quality short term commercial loans will automatically act so as to stabilise the price level" Willis and Edwards, (1926, 494). The real bills doctrine maintained that price level stability could be guaranteed if bank lending was responsibly constrained: Mints (1945) and Laidler (1984). If note issuance was regulated by the ability to discount sound real bills, gold reserves would not be reduced.

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Anti-Bullionists instead put forward what in modern parlance would be called a cost push view of inflation. Bad harvests, for example, caused domestic price increases, not an increase in paper note issue. The importation of expensive corn from abroad (because of the measures of the Corn Laws) was made necessary after a string of bad harvests in England. This was a widely recognised contributor to the economic problems of the time. In 1802 Thornton maintained in *Paper Credit* that "Our two defective harvests, and the interruptions experienced in our export trade, very sufficiently account for the late fluctuation of our exchanges" (Thornton 1802, 225). The high price of bullion and the depreciation of the pound was largely caused, not by an over-issue of the Bank of England, but the large outflows of funds from England to subsidise allies during the Napoleonic Wars (Corrie 1962).

To summarise, Ricardo's ingot plan was central to the discussions for reinstituting convertibility, but it was not implemented. Although the blueprint laid out in *Proposals* was side-lined, it was praised much later by John Maynard Keynes: "Ricardo and other great authorities have advocated as the best of all currency systems… one in which the currency media used in the internal circulation are confined to notes and cheap token coins, which are made to act precisely as if they were bits of gold by being made convertible into gold for foreign payment purposes" (1913, 5).

## 4. The multiple interpretations of Ricardo and his critics

This section explores the diversity of current views about the precise meaning of Ricardo's monetary theory. It also draws out the diachronic nature of the controversies of Ricardo's time by linking his opponents' arguments to contemporary advances in monetary theory.

### a. The traditional interpretation

Ricardo's theory has been described as containing insurmountable difficulties (Lapavitsas, 1994, Blaug 1997, among others). The inconsistency that Ricardo has been criticised for arises from simultaneously held views on how money's value is determined.

On the one hand, when money is identified as gold, it has a commodity character, and like all other commodities, its value, according to Ricardo's labour theory of value, is determined in its production process, independent of the amount that exists in circulation. Its value is related to its embodied labour time and other production costs, and in this sense it has an intrinsic value. The following problem presents itself: finding a measure of value that both adequately measured the changing value of commodities as well as remaining invariable in its own right. Relative values of commodities depend on both the labour content of their production as well as distributional issues such as the rate of profit. "When two commodities vary, it is impossible to be certain whether one has risen, or the other fallen" (Ricardo 1816, 18). Ricardo himself confessed: "It is still exceedingly difficult to discover or even to imagine any commodity which shall be perfect general measure of value" (Ricardo, 1823, in Sraffa [1951-1973] IV: 397). In any case, identifying money as a commodity, whose value is determined like any other, has been the source of much criticism to Ricardo's monetary thought (Lapavitsas, 1994).

On the other hand, the strong identification of Ricardo with the Bullion Report has traditionally placed Ricardo firmly within the quantity theory tradition. With money's value determined in circulation, money's purchasing power depends on its quantity and the volume of transactions (see Takenaga, 2003 for an elaboration). The precise meaning of this is also subject to interpretation. In modern minds the quantity theory of money is a simple dictum whereby an exogenous increase in the money supply will cause a proportionate rise in the price level. However, there is substantial misrepresentation about the Classical theorists' views. Early nineteenth century quantity theory was heterogeneous, nuanced and qualified; according to Harris (1985) for example, the crude version of the quantity theory became popular in the twentieth century and was not actually a feature of Classical theorists. The quantity theory can be more accurately viewed as a paradigm, rather than a single theory (Harris, 1985), which confirms Corry's (1962) main thesis that the popular views surrounding Classical monetary orthodoxy are unhelpful descriptions of Classical monetary thought, as they tend to be grossly simplified.

Although subsequent work has sought to amend the view that Ricardo was behind the Bullionist Report of 1810, which among others was drafted by Thornton (Fetter, 1959), more important is whether Ricardo indeed concurred with a simple proportionality principle, a view that has been significantly revised and qualified.

### b. **The new interpretation**

A new interpretation of Ricardo's monetary theory has been proposed (Marcuzzo 1987, 1994a, 1994b; Rosselli 1987, 1994a, 1994b, 1999, 2013; Deleplace 2016). It helps disentangle the claim that Ricardo's monetary theory is inconsistent and overturns his status as a deficient monetary theorist. The question arises as to how a man whose life profession was to work in the money markets be ignorant about their operation. In order to correct the misinterpretations of Ricardo's work that arise from the aforementioned implications of the traditional interpretation, the new interpretation emphasizes the distinction Ricardo made between the value of money and value of gold (Marcuzzo and Rosselli, 1994). Commentators have mistakenly ascribed to Ricardo the view that the role of gold is to provide for money's value. The new interpretation proposes instead that Ricardo's purpose was to minimise the possible sources of monetary instability, which can be done by making gold the frame of reference from which fluctuating prices of other commodities can be measured. It is from this perspective that his policy recommendation contained within *Proposals* can be better understood. According to Ricardo: "When two commodities vary in relative values, it is impossible with certainty to say, whether the one rises, or the other falls; so that if we adopted a currency without a standard … [the] depreciation could not admit of proof, as it may always be affirmed that commodities had risen in value, and that money had not fallen" (Ricardo 1816, 19). If we use an analogy with units of length measurement, by keeping the ruler's units fixed, varying lengths of objects can be measured; if the length of a measurement unit keeps changing, a change in measurement may reflect a change in the unit of measurement *or* a change in the item being measured, but it would be impossible to distinguish between them. (Note however that the difference with length measurements as explained by Deleplace [2016, 6]). This substantiates Marcuzzo and Rosselli's claim that the role of gold for Ricardo "is not as money, but as the standard of money, i.e. the means to measure the value of money" (Marcuzzo and Rosselli 1994, 1253).

Using gold as the standard, the value of a paper medium would be determined by the amount of gold it can buy. "It is immaterial whether the circulating medium is made up of full bodied gold coins or of debased coins or paper money (whether convertible or inconvertible): the value of money is always determined by the quantity of gold bullion that one unit of currency can buy on the domestic and foreign markets, according to the prices of gold and the exchange rate" (Marcuzzo and Roselli 1994, 1253). A change in the value of money could be identified from the difference between the mint and market price of gold: i.e. between the fixed price that has been set by law of the weight of metal that is analogous to a monetary unit, and the amounts of monetary units that can be given in the market by selling a quantity of metal. When these diverge, and the market price is greater than the mint price, opportunities for profitable arbitrage materialise, and people melt their coins into bullion to sell for the market price which is higher than its mint. If this process entails demanding the Bank to exchange a holder's notes for gold taken from the banks reserves, in order to profit from the margin, there will be a strain on reserves.

Ellis summarised the two broad approaches to theories of money as: "those which regard it as something more, and those which regard it as something less, than an economic commodity" (Ellis, 1937: 3). Taking the new interpretation view, we could say that indeed, for Ricardo, money is a commodity, but what makes it a special commodity unlike others is that is has two prices: one set by law and one by the market (Deleplace, 2016, 6). One of the problems of inconvertibility is that one loses control over a potential handle on the source of price instability; variations in the value of money could not be as effectively managed as compared to the ingot plan. The mechanism to ensure the two prices do not diverge is broken. It is in this respect that Ricardo talks of an excess note issue when it is entirely based on the demands made by merchants for loans and the needs of government. The Bullion Report is clear: 'That excess cannot be exported to other countries, and, not being convertible into specie, it is not necessarily returned upon those who issued it; it remains in the channel of circulation, and is gradually absorbed by increasing the prices of all commodities" (Select Committee, 1810, 17).

The new interpretation helps identify that the scheme in *Proposals* refers to something beyond this concern. Ingots would not circulate internally as money. The implication is that by devising a way to manage the divergences between market and mint prices by altering the quantity of note issuance, the possibility for profitable arbitrage and movement of gold is removed. The significance of this for the external account is elaborated in Section 5. Marcuzzo and Rosselli stress that the "value of gold, namely the relative value of gold in terms of commodities, has no role to play in Ricardo's monetary analysis" *(*Marcuzzo and Rosselli 1994, 1254-5). Ricardo's intention was to create an economical and secure monetary system. At the core of this new interpretation is that price instability that arises from market processes outside of monetary authorities' control, such as changes in the standard's value, meaning the value of gold, cannot be prevented; the essence of *Proposals* is that price disturbances can be quelled, at least partly, through the element that *is* under the control of the authorities, i.e. the manipulation of the money supply to ensure the market and mint price of gold do not deviate (Deleplace, 2016).

### c. Anti-Bullionists and endogenous money theory

There is an affinity between the objectors to Ricardo's plan and some contemporary monetary theorists. Current discussions on money supply endogeneity can be traced to the intellectual heritage of the anti-Bullionist argument (Lavoie 2009). According to Schumpeter "there are only two theories of money which deserve the name, the commodity theory and the claim theory. From their very nature they are incompatible" (Ellis 1937, 4).

Post Keynesian endogenous money theory holds that the money supply is endogenous to the activities of the real private sector. Rather than focusing on money's supply as exogenously determined by the authorities, the focus is on the demand for credit which is based on real expenditure plans of firms and their future expectations about profitability. Money is created through a process of credit creation. Clear echoes from the preceding discussion can be found in Dow (2006, 40): "Endogenous money theorists emphasize particularly cost-push forces for inflation … far from causing inflation (as in the monetarist model), money comes at the end of the causal process by which inflation occurs". The passivity that was attached to the Bank of England's response in the early 1800s is echoed in the recent literature, in particular in the Post-Keynesian accommodationist view (Dow 2006, 24). Represented by writers such as Kaldor and Moore, among others, it holds that "inflation could not be caused by an excessively high growth rate of the money supply" and that there could "never be any excess money supply" (Lavoie 2006, 17). In opposition to Ricardo's view, monetary authorities cannot control the money supply.

Several important rebuttals have been made against the anti-Bullionist ideas. There were legitimate concerns that the divide between a genuine and a speculative need for credit was often blurred. With industry expanding rapidly in the early 1800s there were ample opportunities for speculative ventures, and according to Niebyl (1946, 67) the Bank of England wanted to take part in potential profit making from these loans to business. Furthermore, according to Goodhart (1988), the problem with this benign view of supplying loans to merchants was that it hadn't factored in the possibility of banks trying to make their liabilities more attractive and thus avoid drains on their reserves at the Bank of England. "The automatic loss (gain) of reserves through the clearinghouse mechanism accruing to relatively fast (slow) growing banks tended to force all banks to grow at around the same mean rate, but it provided no guide to what would determine the rate of growth, and whether that could be expected to be stable or unstable" (Goodhart 1988, 47). Blaug raises a similar concern, describing how real bill discounting potentially enhances credit boom and bust cycles. Increasing loans and raising money incomes, may justify additional borrowing, and so he argues, real bill discounting in and of itself does not guarantee a stability in the quantity of money or credit (Blaug 1962: 632). Modern attempts to manipulate the cash rate to stabilise inflation may have resulted in unchecked asset speculation leading up to the global financial crisis.

## 5. Implications for the external accounts

Ricardo's scheme is intimately connected with international exchanges. How do the different understandings of Ricardo's monetary theory affect subsequent interpretations of how Ricardo viewed international adjustment and changes in the external account? Although both Takenaga (2003) and the new interpretation aim to remove the stigma of inconsistency from Ricardo's monetary theory, the way they do this is different, and can be seen by disentangling movements of gold relating to international arbitrage opportunities and those that relate to equalisation of the purchasing power of gold across countries.

Takenaga (2003, 117) sees the inconvertibility problem for Ricardo as one where the process of equalisation of the values of money across the world is disrupted through inconvertible money, as it cannot be exported to re-establish the correct international distribution of precious metals. Takenaga summarises Ricardo's ingot plan as the means with which a country can halt the destabilisation of the value of money by removing the barrier between the domestic and international arena. Once a firm link is established with gold, then money as gold can move freely to re-establish an international distribution of gold in which money's value will be equal in all countries. It is this that he portrays as Ricardo's ultimate objective.

Contrast the approach of Marcuzzo, Rosselli and Deleplace who see the importance of distinguishing between the value of money and the value of gold. The new interpretation stresses that the relationship between gold and commodities has no role in Ricardo's monetary theory. Ricardo does not adopt an essentially Humean account of international adjustment where gold will flow until there is a global equilibration of purchasing power of gold vis a vis commodities (Marcuzzo and Rosselli, 1987). Under the typical price specie flow mechanism "balance of payments imbalances adjust automatically through variations in price brought about by flows of gold converted into money" (Rosselli 2013, 869). Ricardo's 'monetary' side of his theory, as explained in Section 3, relates to the deviations between the fixed and market price of gold. Gold movements are directly related to the opportunities for profitable arbitrage that would arise if the market and mint price of gold diverged far enough. According to this view, it is a variation in the value of money that governs gold movements and not a variation in the value of the standard, which has no bearing on gold movements. "It is not the equalisation of the purchasing power of gold in terms of commodities that accounts for gold movements" (Marcuzzo and Rosselli 1994, 1254-5).

Marcuzzo and Rosselli (1987) propose instead that the well organised international market for gold is the means through which equalisation between the domestic and foreign price of gold is carried out. Gold flows will cease when "each currency buys on the domestic market no more and no less gold than it buys on the foreign markets" (1987, 368). It is in this light that Ricardo's ingot plan should be viewed. It is a means to remove the opportunities for arbitrage by containing any difference between the mint and market prices of gold. This would in part stabilise the prices of commodities by removing fluctuations arising from variations in the prices of gold. According to this interpretation, any changes in the value of gold in terms of commodities cannot be under the control of the monetary authorities.

Were the ingot plan to be operationalised, the implication of the new interpretation goes one step further than that implied by Sayers above on reserving gold for international transactions. The new interpretation implies that international gold exchange would not be profitable if mint and market price didn't diverge. The evidence they provide from the practice of gold merchants suggests that if this was the case, it would always cost less to obtain foreign currency domestically than it would to ship gold to obtain it (Rosselli, 2013).

These findings are relevant to contemporary problems. Although the Bullionist's preoccupation about the lack of acceptability of inconvertible paper money out of the country of issue is clearly a concern which belongs to a period far from today, Ricardo's quest for a stable monetary system is still very much alive, both in practice as well as in theory. Despite the advances made in international macroeconomics, several unanswered issues about the nature of cross border money remain, and how its value or acceptability is determined. Ricardo's method, as for example in the *High Price of Bullion* (1810), builds his theoretical argument by starting from an analysis of a system with metallic monetary only, moving to a metallic and convertible notes system in order to analyse the dynamics and problems of an inconvertible money system. Carrying over the anti-Bullionist arguments in order to appreciate the dynamics of today's credit based monetary system, perhaps the method needs to be reversed. Hicks (1967) highlighted how monetary theory ought to evolve with how the system evolves, and his position shifted to emphasize how understanding credit is key to understanding money in a monetary economy at whatever stage of development (see Smithin 2003, 30). This may be the most essential hurdle Ricardo's monetary theory confronts. Ricardo's world centred on developing a system to best link paper money to gold. *Proposals* is concerned with money as made up of currency and bank notes, whereas the main component of today's money supply, bank deposits, which are also the main vehicle for credit extension are excluded.

## 6. Conclusion

Two hundred years after the publication of Ricardo's ingot plan, the debate on its precise meaning is still lively. Such practical blueprints to monetary problems as Ricardo's *Proposals* are not so frequent today. This paper draws parallels between the issues theorists faced in the debates from which Ricardo's *Proposals* emerged and those that are relevant to current monetary problems. It is by studying contributions around prior debates and works like *Proposals* which could help illuminate modern concerns.

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